

## ANALYSIS OF ORIGINAL BILL

Author: Kaloogian & Baldwin Analyst: Kristina North Bill Number: AB 2109

Related Bills: None Telephone: 845-6978 Introduced Date: 02/18/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Public School Extra Curricular Activity Fees Credit/FTB Report Fiscal Impact to Legislature

### SUMMARY

Under the Personal Income Tax Law (PITL) and Bank and Corporation Tax Law (B&CTL), this bill would authorize a credit to taxpayers equal to any fees paid for the support of extra curricular activities to a public school located in this state.

### EFFECTIVE DATE

This bill would apply to taxable or income years beginning on or after January 1, 1998.

### SPECIFIC FINDINGS

**Federal and state laws** generally do not allow a tax deduction for personal expenses, such as a child's educational expenses. Personal expenses that are deductible, except for items such as medical, interest, and taxes, are primarily work-related and considered miscellaneous itemized deductions. Miscellaneous itemized deductions are deductible to the extent that they exceed 2% of adjusted gross income (AGI).

**Federal and state laws** allow a deduction for charitable contributions to various types of qualified organizations, including educational organizations such as public schools.

**Federal and state laws** allow a deduction for business expenses, which could include advertising on school team uniforms and other team sponsorship activities.

**Federal and state laws** provide for various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child and dependent care credits) or to influence business practices and decisions. However, neither state nor federal laws currently allow a credit for expenses relating to the school-sponsored extra curricular activities.

### DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

#### Board Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
\_\_\_ X \_\_\_ PENDING

#### Agency Secretary Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
DEFER TO \_\_\_

#### GOVERNOR'S OFFICE USE

Position Approved \_\_\_  
Position Disapproved \_\_\_  
Position Noted \_\_\_

Department Director

Gerald H. Goldberg

3/17/98

Agency Secretary

Date

By:

Date:

**Existing state law** provides general rules which apply to all tax credits, unless the individual credit provisions specify otherwise. Among other items, general rules describe the division of credits between multiple taxpayers, a husband and wife, or partners. Except as specified, no tax credit may reduce regular tax below the tentative minimum tax for alternative minimum tax purposes.

**This bill** allows a credit equal to any fees, not to exceed \$500 per taxpayer, paid to a public school in this state for the support of extra curricular activities.

**This bill** defines "extra curricular activities" as school-sponsored activities that require enrolled students to pay a fee in order to participate, including but not limited to band uniforms, varsity athletic activity equipment or uniforms, and scientific laboratory materials.

**This bill** requires the Franchise Tax Board (FTB) to report on the fiscal impact of the credit to the Legislature on or before July 1, 2000.

**This bill** provides that, in the case of a husband and wife filing a separate return, the credit would be divided equally between them.

**This bill** provides the credit would be in lieu of any deduction to which the taxpayer would otherwise be entitled.

Since this bill does not specify otherwise, this credit would not reduce regular tax below tentative minimum tax.

### **Policy Considerations**

This bill would provide an unprecedented 100% credit of qualifying expenses up to \$500 per taxpayer.

While a single taxpayer would be permitted a \$500 credit, a husband and wife paying filing separate returns would be limited to a maximum of \$250 each.

This bill does not contain a sunset date so the Legislature may review its effectiveness.

### **Implementation Considerations**

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

Definitions are needed for "fees," "varsity athletic activities," and scientific laboratory materials." If the intent is that only K-12 schools would qualify, "public school" should be defined to clarify that only K-12 and not colleges and universities would qualify. Also, it is unclear whether the term "support" includes payments by taxpayers to enable their children to participate in these programs or whether the term is intended to apply to contributions from disinterested community members in support of these activities. Further, it is unclear if "support" would include

payments by businesses for team sponsorships, the purchase of team uniforms, etc.

This bill does not require certification that fees were paid for the support of school-sponsored extra curricular activities.

#### **LEGISLATIVELY MANDATED REPORTS**

The FTB would be required to prepare a report to the Legislature on the fiscal impact of the credits provided in this bill on or before July 1, 2000.

#### **FISCAL IMPACT**

##### **Departmental Costs**

If this bill is amended to resolve the implementation concerns, this bill should not significantly impact the department's costs.

##### **Tax Revenue Estimate**

Based on data and assumptions discussed below, revenue losses from this bill are estimated to be as follows:

Estimated Revenue Impact of <b>AB 2109</b> <b>Extra Curricular Activity Fees Credit</b> Assumed To Be Effective From 1/01/98 (In \$Millions)			
Fiscal Years	1998/99	1999/00	2000/01
Grades K-12	(81)	(78)	(82)
*Community Colleges	(15)	(15)	(16)
*Universities	(3)	(3)	(3)
<b>T O T A L S</b> (Adjusted & Rounded)	<b>(100)</b>	<b>(95)</b>	<b>(100)</b>

(\*) This analysis assumes that qualifying fees apply only to students who actually participate and not to that part of fees paid by all college students which fund extra-curricular programs.

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

##### **Tax Revenue Discussion**

Revenue losses would be determined by the number of taxpayers paying fees for extra curricular activities of any California public school, the amount of fees, and the tax liabilities of participating taxpayers. For the purpose of this estimate, "fees" was interpreted to mean cash payments only, excluding donations of time or property.

According to data from the California Department of Education, the number of students enrolled in California public schools in grades K-12 was over 5.6 million in the 1996/97 school year, community colleges had 1.4 million, and public universities over 500,000 students during the same period.

To estimate the magnitude of potential revenue losses from this bill, it was assumed that 5% of students in grades K-12 would have taxpayers paying an average amount of \$250 during the school year for students' participation in extra-curricular activities. The number of payers was assumed to be 2.5% for community colleges and 1% for universities, with an average fees of \$350 for college and \$500 for university levels. The number of payers was grown annually by school enrollment growth rates as well as by 2.5% annual inflation rate.

With a deduction offset applied, the magnitude of revenue losses would be on the order of \$100 million per school year. It is projected that 75% of the revenue impact would occur under the PITL and the remaining 25% under B&CTL.

**BOARD POSITION**

Pending.